

ASRS Cost Savings Initiatives

Estimated as of June 30, 2009, in Millions of Dollars

Action	Calendar Year Proposed	Calendar Year Adopted	Reduction in Total Contribution Rate*	Annual Reduction in Total Contribution Amount	Present Value of Savings on Closed Group Basis		Present Value of Savings on Open Group (No Growth**) Basis	
Cost Savings Initiatives Contained in Current Valuation & Reflected in Lower Current Contribution Rate¹					Past	Future	Past	Future
Change basis for service purchases from normal cost to actuarial present value (APV)	2003	2004	0.60%	\$59.06	\$376.41	\$532.20	\$376.41	\$1,686.01
Correction of Permanent Benefit Increase (PBI) reserve	2003	2004	0.04%	\$3.78	\$25.09	\$49.63	\$25.09	\$49.63
Decrease interest credited on withdrawn contributions from 8% to 4%	2004	2004	0.27%	\$26.67	\$169.38	\$264.92	\$169.38	\$690.93
sub-total, past and future			0.91%	\$89.51	\$570.88	\$846.75	\$570.88	\$2,426.57
sub-total, savings in current valuation			0.91%	\$89.51	\$1,417.63		\$2,997.45	
Cost Savings Initiatives Contained in Future Experience²					Past	Future	Past	Future
Long Term Disability (LTD) program design changes	2003	2004	0.02%	\$2.41	\$12.55	\$29.27	\$12.55	\$47.12
Reimbursements for early retirement incentives	2003	2004	0.18%	\$17.62	\$112.92	\$214.17	\$112.92	\$344.81
Increase interest rate on payroll deduction agreements (PDAs) from 0% to 8%	2004	2004	0.16%	\$15.97	\$100.38	\$194.22	\$100.38	\$312.70
Pop-up restrictions	2005	2006	0.41%	\$40.37	\$168.06	\$490.87	\$168.06	\$790.30
Rescinding modified Deferred Retirement Option Plan (mDROP)	2005	2006	0.50%	\$49.13	\$204.95	\$597.29	\$204.95	\$961.64
LTD changes to offsets and pre-existing condition period	2005	2007	0.15%	\$14.42	\$45.70	\$112.75	\$45.70	\$332.50
Recapture of unclaimed monies	2007	2008	0.01%	\$0.63	\$2.04	\$7.70	\$2.04	\$12.40
Eliminate 80% cap on retirement benefits	2008	2009	0.04%	\$4.25		\$51.62		\$83.11
Require 20/20 Rule for dual employment situations	2009	2009	0.04%	\$3.93		\$53.65		\$53.65
Eliminate enhanced refunds	2005	2010	0.16%	\$16.20		\$346.47		\$346.47
Replace Rule of 80 with Rule of 85	2006	2010	0.30%	\$29.34		\$290.26		\$290.26
Replace 36-month average salary with 60-month average	2006	2010	0.25%	\$24.29		\$316.65		\$316.65
sub-total, past and future			2.22%	\$218.56	\$646.60	\$2,704.92	\$646.60	\$3,891.61
sub-total, savings emerging in experience			2.22%	\$218.56	\$3,351.52		\$4,538.21	
GRAND TOTAL			3.13%	\$308.07	\$4,769.15		\$7,535.66	

*These changes to the total contribution rate are multiplied by current payroll to give annual savings amounts in the next column. The annual savings amounts are then converted to the present values shown in the last two columns. These values include both accumulated past savings and estimated future savings. The savings from basing service purchases on actuarial present value is a reduction in future service liabilities. For the reduction in the interest crediting rate and the changes to LTD offsets and pre-existing condition period, the savings arise from reductions in future service and past service liabilities. Other Actuarial Valuation Basis savings are reductions to past service liabilities, i.e., capitalizations of the annual savings amounts over 30 years. Recapture of unclaimed monies will occur every year, but the numbers above are converted to a level annual savings amount.

** No growth scenario means that the projection maintains the size and age distribution characteristics of the current active population.

Costs above give the combined effect of each bill -- if a bill changes three plan provisions, the cost of each reflects the adoption of the other two provisions.

Some of these changes will not be reflected in their entirety in the current valuation report, but will be captured in future reports as actuarial gains. For example, the Plan valuation contains no assumption on Payroll Deduction Agreements (PDAs), so the absence of interest charges in the past has been reflected as an actuarial loss. The change to 8% interest charges will end the losses and eventually reduce the total contribution rate by 0.15%.

Explanation of Cost Reduction Initiatives

¹ASRS changed the basis for service purchases from the average normal cost rate to the actuarial present value rate. In this way, members who buy service pay the entire cost of their service purchases, and the purchases have no effect on contribution rates.

¹ASRS reduced the rate of interest credited on members' account balances from 8% to 4% as of July 1, 2005.

¹The 2001 addition to the Permanent Benefit Increase reserve was overstated in that year. ASRS corrected the reserve and thereby reduced the reserve committed to future Permanent Benefit Increase awards.

²Members can enter into Payroll Deduction Agreements to purchase service over time through payroll deduction. ASRS revised the method of calculating payments under these agreements to include 8% annual interest.

²ASRS members have been able to change the form of benefit they elect (e.g., joint & survivor to straight life) after they have begun to receive payments, and to do so as many times as they want whenever they want. By legislative action, this ability will be limited to a one-time election to change to a single life pension.

²Some ASRS employers have offered their employees incentives to retire early. These incentives can increase ASRS liabilities. By legislative action, future incentives will be funded by the employers who offer them.

²By legislative action, the modified Deferred Retirement Option Plan, which would have allowed members to earn as much as six years of service for three years of work, was rescinded.

²The legislature closed certain loopholes in the Long Term Disability program that allowed members to receive benefits for a longer period than intended.

²Legislation increased the offsets for Social Security income to 85% and extended the pre-existing condition period to six months.

²2008 Legislation exempts ASRS from unclaimed property procedures and allows ASRS to recapture assets abandoned after participant's age 73.5.

²2009 Legislation eliminated the 80% cap on benefits that had been in place since 2001.

²2009 Legislation requires a member to meet membership (20/20 Rule) in ASRS before contributing to a second employer, subject to a grandfathering clause.

²Upon withdrawal, members receive 25-100% of employer contributions depending on years of service. 2010 Legislation eliminates the return of employer contributions for members hired on or after July 1, 2011.

²Normal retirement can be achieved when a member's age + years of service equals 80 (points). 2010 Legislation requires members hired on or after July 1, 2011 to reach 85 points for normal retirement.

²Retirement benefits are calculated based on an average of the member's highest 36 months of salary in the 10 years prior to retirement. 2010 Legislation substitutes a 60 month average for members hired on or after July 1, 2011.